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UNCLAS SECTION 01 OF 02 LIMA 004969

SIPDIS

SENSITIVE

DEPT FOR WHA/AND, WHA/EPSC, EB/TPP/ABT
TREASURY FOR OASIA/INL
COMMERCE FOR 4331/MAC/WH/MCAMERON
USDA FOR FAS/ITP/GRUNENDFELDER
BANGKOK FOR TRADE OFFICER

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EAGR](#) [PGOV](#) [PREL](#) [PE](#)

SUBJECT: PERU SIGNS "PARTIAL" FTA WITH THAILAND

REF: A) LIMA 3554 B) 04 LIMA 5481

1. (U) Summary. After over a year of negotiations, the GOP signed an "early harvest" free trade agreement with Thailand on November 19 during the APEC Conference in Busan, South Korea. The agreement covers approximately 70 percent of products exported by the two countries, but does not cover sensitive products including rice, sugar and poultry. According to the Ministry of Trade, Peru expects to ink a final and more complete agreement with Thailand by mid-2006. End Summary.

Details of the Agreement

2. (U) President Alejandro Toledo and Thai Prime Minister Thaksin Shinawatra signed an "early harvest" trade pact on the fringes of the Asian-Pacific Economic Cooperation (APEC) forum on November 19, after more than a year of negotiations. The trade accord is not a comprehensive document, only covering approximately 70 percent of the two countries' products. As expected, sensitive agricultural products - rice, sugar and sugarcane, and some poultry and fish products - are excluded. Although the agreement is limited, the GOP is heralding it as the first step toward a comprehensive Free Trade Agreement (FTA) with Thailand.

3. (SBU) According to Julio Chang, APEC Director at the Ministry of Trade, the GOP will continue negotiations with Thailand for a comprehensive FTA. He expects negotiations will conclude by mid-2006, enabling the governments to sign a completed Peruvian-Thai FTA by August 2006. Chang indicated his concern that discussions on sensitive agricultural products will decelerate FTA talks.

Why Thailand?

4. (SBU) The GOP continues to push for closer economic ties with Asia; several Ministry of Trade officials have informed us that they believe the way into Asia - namely China - is through the smaller countries, such as Thailand and Singapore. Thailand is Peru's largest trading partner in Southeast Asia; trade between the two countries was \$69.1 million in 2005 (through September). Peru exported over \$30 million in goods to Thailand in 2004, which accounted for 0.2 percent of Peru's total exports. Principal products included zinc, copper, and fishmeal. Peru imported \$9.8 billion in goods in 2004, 0.4 percent of which came from Thailand. Imports included light trucks, manufactured goods such as ovens, microwaves, and refrigerators, and polyester thread/fabric.

5. (SBU) Although the majority of sensitive items excluded from the FTA are agricultural products, the GOP continues to state that the FTA with Thailand will benefit Peru's agricultural sector. Chang noted that exports of fruit (grapes), asparagus, onions, paprika, and coffee should increase under and FTA. During the signing ceremony, President Toledo promised that the FTA would generate \$500 million in export earnings and generate 300,000 new jobs.

Comment

6. (SBU) The GOP attempted to take center stage at the APEC Summit by signing the partial FTA with Thailand, only to be surpassed by the signing of the Chile-China FTA. While the "early harvest" agreement marks Peru's first trade accord with an Asian country, we expect that Peru's defensive position on sensitive agricultural products may limit its ability to conclude a comprehensive agreement. Peru's negotiators may want to focus on concluding negotiations on sensitive agricultural issues in the U.S.-Andean FTA before they shift their focus to Thailand.

STRUBLE